AN EVALUATION OF MEDICAID REIMBURSEMENT RATE POLICIES FOR TEACHING AND SPECIALTY HOSPITALS

BY

THE SENATE BUDGET COMMITTEE

THE SENATE HEALTH, AGING AND LONG-TERM CARE COMMITTEE

THE HOUSE OF REPRESENTATIVES FISCAL RESPONSIBILITY COUNCIL

THE HOUSE OF REPRESENTATIVES HEALTH CARE SERVICES COMMITTEE

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AS DIRECTED BY SECTION 17 OF SB 2502,
THE IMPLEMENTING BILL OF THE
1999-2000 GENERAL APPROPRIATIONS ACT

An Evaluation of Medicaid Reimbursement Rate Policies for Teaching and Specialty Hospitals

SUMMARY

This project was mandated by Section 17 of the Implementing Bill (Senate Bill 2502) for Fiscal Year 1999-00 and was a cooperative effort of the House of Representatives and the Senate. The purpose of the project is to evaluate and analyze the short-term and long-term public policy and cost implications of the removal of Medicaid reimbursement rate caps for teaching and specialty hospitals. A report to the President and Speaker was required by September 1, 1999. The study was accomplished through a series of meetings which helped to determine required data elements and policy implications. The Agency for Health Care Administration provided assistance in analyzing data and reviewing federal regulations.

As a means of establishing a framework for review of this study's findings by the Legislature, staff has identified a series of public policy advantages and disadvantages of making any revisions to the Medicaid reimbursement methodology relative to the current ceilings. These advantages and disadvantages are designed to provide some understanding as to the potential impact of any reimbursement decisions the Legislature may make.

In reviewing the July, 1999 rates of the teaching and specialty hospitals, the workgroup determined that the total cost of removing the ceilings for these hospitals is estimated to be about $61 million. Of this amount $26.6 million are state funds (General Revenue) and $34.4 million are federal Title XIX (Medicaid) funds. In addition to the cost to the state and federal governments, it is estimated that there will be a cost to the counties of between $3 and $4 million for their share of Medicaid inpatient hospital costs.

BACKGROUND

In the 1980s and the early 1990s, the cost of the Medicaid Program was increasing at a very rapid pace. Medicaid was requiring a greater percentage of the total state resources. It was determined by the Legislature that various cost control measures should be put in place to slow the rate of growth in this program. One of these measures established target rate reimbursement limitations to help slow the rate of growth of the hospital program. Currently, rural hospitals and state mental health hospitals are exempt from these target ceilings, either by legislative directive or Agency for Health Care Administration policy.

Florida's hospitals, like most hospitals nationally, are undergoing significant changes in their reimbursement policies. Most of these changes are beyond the control of the hospitals and these health care facilities are having a difficult time with their financial planning activities. For example, changes enacted by the federal Balanced Budget Act of 1997 call for reductions in Medicare spending for hospital-related services which will result in decreases in hospital reimbursement of an estimated $44 billion nationwide over the next five years. States like Florida, with high levels of elderly and Medicare beneficiaries, will be disproportionately affected by these changes. A recent estimate by the Florida Hospital Association indicates Florida hospitals will lose at least $3.9 billion over the period 1998 - 2002. Additionally, the movement to managed care, which has been significant in Florida, adds to the concerns about the lowering of fees and the overall uncertainty of reimbursements. These factors, coupled with a high uninsured rate, makes Florida's hospitals vulnerable from a financial perspective. Especially hard hit by these changes in payment methodologies and market strategies will be teaching hospitals which provide a significant level of charity care in Florida.

Florida's Medicaid program reimburses hospitals for inpatient and outpatient services based on the approved Medicaid State Plan. This plan allows for cost-based reimbursements which are adjusted twice per year. The Medicaid hospital reimbursement plans limit growth in reimbursement rates based on specified target rates and ceilings. There are separate reimbursement plans for inpatient services and for outpatient services. Annual financial cost reports by hospitals form the basis for the calculations and must be prepared in accordance with cost finding of Title XVIII (Medicare) Principles of Reimbursement except as modified by the state reimbursement plan.

Major characteristics of the state Medicaid reimbursement plans include the following:

- Per diem rates are facility specific based on each facility's cost report.

- Per diem rates are prospective or interim.
- Prospective rates are based on historical cost adjusted for inflation.
- Interim rates are based on budgeted cost and subject to annual cost settlement.
- Medicaid payment is considered payment in full for covered services.

Definitions:

Section 408.07(44), Florida Statutes, defines a "**teaching hospital**" as "any hospital formally affiliated with an accredited medical school which exhibits activity in the area of medical education as reflected by at least seven different resident physician specialties and the presence of 100 or more resident physicians." The following hospitals meet this definition:

Shands Teaching Hospital
Jackson Memorial Hospital
Mt. Sinai Medical Center
Tampa General Hospital
Orlando Regional Medical Center
University Medical Center of Jacksonville

The Medicaid State Reimbursement Plan defines **"specialty hospital"** as "a licensed hospital primarily devoted to tuberculosis, psychiatric, pediatric, eye, or cardiac care and treatment; or a licensed hospital that has ten or more residency training programs." The following hospitals that are currently subject to the facility specific target ceilings meet this definition:

University of Miami Hospital
Miami Children's Hospital
All Children's Hospital
A.G. Holley Hospital
Ann Bates Leach Eye Hospital
H.L. Moffitt Cancer Hospital

An **"inpatient variable cost-based county reimbursement ceiling"** ("cost-based county ceiling") is established for each county in the state. The cost-based county ceiling applies to general hospitals as a limitation on the variable cost per diem that a hospital will be paid. Impacted hospitals will receive the lower of the variable cost rate for the hospital or the cost-based county ceiling. Statutorily defined teaching hospitals, specialty hospitals, and rural hospitals are exempt from the cost-based county ceiling.

Beginning on July 1, 1991, an additional ceiling based on a **target rate system** was imposed. The target ceiling is used to limit the growth in the cost-based county ceiling and facility specific per diem between state fiscal years. The target ceilings are adjusted each July 1 based on the prior January 1 rate semester's ceilings and facility specific per diem times the allowable rate of increase.

An "**outpatient cost-based county reimbursement ceiling"** for variable costs per occasion of service ("cost-based county ceiling") is established for each county in the state. The cost-based county ceiling applies to all hospitals as a limitation on the variable costs per occasion of service that a hospital will be paid. Hospitals impacted by this will receive the lower of the hospital's occasion of service rate or the cost-based county ceiling. All hospitals are subject to the cost-based county ceiling, except rural and specialty psychiatric hospitals.

Beginning on July 1, 1993, an additional ceiling based on a **target rate system** was established. The target ceiling is used to limit the growth in the cost-based county ceiling and facility specific rates between rate setting semesters. Target ceilings are adjusted each January 1 and July 1 based on the prior rate semester's county ceilings and facility specific rates times the allowable rate of increase.

METHODOLOGY

This project was conducted jointly by the House of Representatives and the Senate pursuant to the requirements of Senate Bill 2502. Staff from the Agency for Health Care Administration, which has the responsibility for the Medicaid Program, provided the data and background information for this project. Information was gathered on each individual hospital's reimbursement, the current state plan, and the federal requirements. Additionally, information on recent changes related to the Balanced Budget Act of 1997 was reviewed to gain a perspective on other actions which are contributing to financial constraints being placed on hospitals.

FINDINGS

The legislative directive was to review the public policy and cost implications of the removal of the reimbursement caps and ceilings for teaching and specialty hospitals.

Cost Implications

Twelve hospitals were determined to meet the criteria as teaching or specialty hospitals as specified in state statute or the Medicaid State Plan and are subject to reimbursement limitations. An analysis of the July, 1999 rates for both inpatient and outpatient reimbursements reveals an additional estimated annual program cost of $60,984,759. Of this amount, $26,552,765 are state funds (General Revenue) and $34,431,994 are federal Title XIX (Medicaid) funds. (See attachments A & B for further detail.)

In addition to the cost to the state and federal governments, the counties have to reimburse the state for 35% of the cost of Medicaid hospital inpatient days 13 through 45 for residents of their counties pursuant to statute (section 409.915, Florida Statutes). It is estimated that the cost to the counties would be between $3 and $4 million.

Teaching hospitals would benefit at a cost to the state and federal governments of $53,786,141 and specialty hospitals would benefit by $7,198,618. This is inclusive of inpatient and outpatient services. (The additional cost for outpatient services has not been adjusted for the current Medicaid policy which limits outpatient reimbursement for adults to $1,000 per year.)

Not all teaching and specialty hospitals will benefit from these changes in policy because their current Medicaid reimbursement rates for these service categories do not exceed the current facility specific target or the cost-based county ceilings. University of Miami Hospital would not gain additional reimbursement for either service category. Miami Children's Hospital and A.G. Holley Hospital would not gain additional reimbursement for the outpatient category. University Medical Center of Jacksonville, All Children's Hospital, H.L. Moffitt Cancer Hospital, and Shands Hospital would not gain reimbursement for the inpatient category.

Policy Implications

The estimated aggregate fiscal impact of total elimination of the rate ceilings under study is $60,984,759. In light of this impact, public policy implications of this reimbursement methodology change are inseparable from the cost implications. As a means of establishing a framework for review of this study's findings by the Legislature, a series of public policy advantages and disadvantages of making any revisions to the Medicaid reimbursement methodology relative to the current ceilings were identified. These advantages and disadvantages are designed to provide some understanding as to the potential impact of any reimbursement decisions the Legislature may make. Staff was not directed to make any recommendations, and has not done so. Following are the advantages and disadvantages deemed most relevant:

Advantages

- Full implementation of elimination of the ceilings would result in Medicaid revenue increases of $53.8 million for teaching hospitals. Given this amount of funding, this issue has significant policy implications related to the funding of Graduate Medical Education.
- Increases in reimbursements resulting from proposed changes in these caps and ceilings would benefit some providers of indigent and charity care.
- Improving reimbursements to these few hospitals may preserve a significant amount of access to health care services for many uninsured Floridians.
- Removing the ceilings for teaching and specialty hospitals would more fully recognize the added overhead costs these facilities face as part of their teaching and specialty status.
- Removing the ceilings may help ameliorate the reductions in hospital Medicare funding that Congress passed as part of the Balanced Budget Act of 1997 (BBA-97). The Florida Hospital Association has estimated that BBA-97 will have a negative fiscal impact of $3.9 billion on hospitals in Florida over the period 1998-2002.
- If Disproportionate Share Program funding is reduced, removing the current ceilings on Medicaid reimbursement for teaching and specialty hospitals might help offset those reductions. This is especially true for teaching hospitals, since they would, in the aggregate, gain more revenue than specialty hospitals by the removal of the ceilings.

Disadvantages:

- One of the reasons the ceilings were imposed was as an edge against constant "inflationary" cost increases in amounts reimbursed to hospitals. Removing the ceilings is a step backward in these cost escalation controls.
- By removing the ceilings only for the teaching and specialty hospitals, the state may be inviting more

litigation and rate-setting challenges from those hospitals that do not receive the exemption. Additional arguments may be made that payment methodologies are being inequitably applied by deleting the ceilings for only certain classes of hospitals. It is estimated that the removal of target limitations of all Medicaid-participating hospitals would cost about $140 to $150 million for inpatient services and an additional $30 to $40 million for outpatient services.

- It is difficult to separate the federal and state policy decisions which impact hospital revenues. If increased hospital revenue as a result of removing the ceilings is perceived as replacement revenue for reduced federal payments to hospitals related to Medicare or other policy changes, then the state's policy change may set a precedent for replacement of eroding federal funds. This could result in the state facing funding situations which may be contrary to state policy adopted to date in attempts to avoid hospital cost-shifts. (A possible means of addressing this issue might be a review of the entire payment scheme for hospitals under Medicaid, including reimbursement plans for inpatient and outpatient services, all the disproportionate share elements, and specialty and teaching hospital designations.)
- Making these hospital reimbursement policy changes could carry over to other provider types such as nursing homes which face varying rate reimbursement ceilings as well.
- County, state, and federal taxpayers will have additional costs if reimbursement ceilings are eliminated.

Attachment A

SUMMARY OF POTENTIAL FISCAL IMPACT

TOTALS--INPATIENT / OUTPATIENT

Provider Name	Additional Annual Program Cost
Teaching Hospitals	
Shands Teaching Hospital	974,879
Jackson Memorial Hospital	34,390,088
Mt. Sinai Medical Center	5,893,194
University Medical Ctr of Jax	566,808
Tampa General Hospital	10,752,481
Orlando Regional Medical Center	1,208,691
Subtotal	**53,786,141**
Specialty Hospitals	
University of Miami Hospital	0
Miami Children's Hospital	1,987,338
All Children's Hospital	3,063,508
A.G. Holley Hospital	219,187
Ann Bates Leach Eye Hospital	315,067
H.L. Moffitt Cancer Hospital	1,613,518
Subtotal	**7,198,618**
Total	**60,984,759**
General Revenue/State Funds	**26,552,765**
Federal Medicaid--Title XIX	**34,431,994**

Attachment B

DETAILED INFORMATION OF POTENTIAL FISCAL IMPACT

INPATIENT CEILINGS

Provider Name	7/99 Total Inpatient Rate Incl. Property	Variable Cost	Variable Cost Target	Lesser of Cost or Target	Additional Cost Per Diem	Est. Inpatient Days	Additional Annual Program Cost
Shands Teaching Hospital	1,345.27	1,174.76	1,177.75	1,174.76	0.00	36,234	0
Jackson Memorial Hospital	1,041.28	1,256.84	989.44	989.44	267.40	123,128	32,924,427
Mt. Sinai Medical Center	1,014.99	1,468.63	885.26	885.26	583.37	6,648	3,878,244
University Medical Ctr of Jax	1,111.77	942.05	944.46	942.05	0.00	24,297	0
Tampa General Hospital	1,004.34	1,152.78	890.00	890.00	262.78	26,048	6,844,893
Orlando Regional Medical Center	1,090.57	950.97	947.44	947.44	3.53	37,976	134,055
Teaching Hospitals Subtotal							**43,781,619**
University of Miami Hospital	1,320.30	659.09	660.77	659.09	0.00	406	0
Miami Children's Hospital	1,550.29	1,422.07	1,326.69	1,326.69	95.38	20,836	1,987,338
All Children's Hospital	1,358.02	1,209.17	1,212.26	1,209.17	0.00	23,225	0
A.G. Holley Hospital	479.26	540.77	466.87	466.87	73.90	2,966	219,187
Ann Bates Leach Eye Hospital	1,847.83	923.58	921.17	921.17	2.41	1,811	4,365
H.L. Moffitt Cancer Hospital	1,618.46	1,388.77	1,451.20	1,388.77	0.00	2,939	0
Specialty Hospitals Subtotal							**2,210,890**
						Total	**45,992,509**

OUTPATIENT CEILINGS

Provider Name	7/99 Outpatient Rate	Variable Cost	Variable Cost Target	County Ceiling**	Lesser of Cost, Target or Ceiling	Additional Per Diem	Est. outpatient Occ. of Svc.	Additional Annual Program Cost
Shands Teaching Hospital	135.00	156.69	153.50	135.00	135.00	21.69	44,946	974,879
Jackson Memorial Hospital	140.53	150.77	148.94	140.53	140.53	10.24	143,131	1,465,661
Mt. Sinai Medical Center	91.66	234.16	91.66	140.53	91.66	142.50	14,140	2,014,950
University Medical Ctr of Jax	79.23	88.25	79.23	138.56	79.23	9.02	62,839	566,808
Tampa General Hospital	117.12	195.81	117.12	137.60	117.12	78.69	49,658	3,907,588
Orlando Regional Medical Center	94.12	109.78	94.12	145.33	94.12	15.66	68,623	1,074,636
Teaching Hospitals Subtotal								**10,004,522**
University of Miami Hospital	111.70	111.70	112.43	140.53	111.70	0.00	5,563	0
Miami Children's Hospital	137.08	137.08	137.96	140.53	137.08	0.00	98,177	0
All Children's Hospital	139.97	187.54	150.97	139.97	139.97	47.57	64,400	3,063,508
A.G. Holley Hospital *	16.95	0.00	0.00	0.00	0.00	0.00	0	0
Ann Bates Leach Eye Hospital	140.53	165.85	146.29	140.53	140.53	25.32	12,271	310,702
H.L. Moffitt Cancer Hospital	137.60	661.81	168.19	137.60	137.60	524.21	3,078	1,613,518
Specialty Hospitals Subtotal								**4,987,728**
							Total	**14,992,250**

***** Outpatient Rate Set at the Statewide Lowest Calculated Rate
****** Lesser of County Rate Ceiling or County Ceiling Target Rate